

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 PA-02 PRS-01 /093 W
----- 010351

R 230409Z DEC 75

FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 655

INFO AMEMBASSY CANBERRA

UNCLAS WELLINGTON 3898

E.O. 11652: N/A

TAGS: ECON, NZ

SUBJ: MORE PRICE RISES TO REDUCE BUDGET DEFICIT

REF: A. WELLINGTON'S 3855

B. WELLINGTON'S 3796

1. THE LATEST PRICE RISES IN THE NEW NATIONAL GOVERNMENT'S SERIES OF ECONOMIC MOVES AIMED AT STABILIZING GOVERNMENT CHARGES AND CONSUMER ESSENTIALS (WHICH FOR THE PAST 3 YEARS HAVE BEEN ARTIFICIALLY PEGGED REQUIRING A BIG INJECTION OF GOVERNMENT SUBSIDY) AT MORE REALISTIC PRICES WERE ANNOUNCED ON DECEMBER 22, THESE ARE:

(A) AS FROM FEBRUARY 14, '76 THE PRICE OF A 600 MIL

BOTTLE OF MILK WILL BE DOUBLED TO NZ8 CENTS (US\$1.0512 EQUALS NZ\$1.00 AS OF DEC. 22). THIS INCREASE WILL REDUCE THE PRESENT \$52 MILLION SUBSIDY TO ABOUT \$28 (ALL VALUES MENTION IN THIS TEL ARE IN NZ CURRENCY) MILLION.

(B) AS OF JANUARY 12, '76 THE PRICE OF A

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STANDARD LOAF OF BREAD WILL BE INCREASED BY 1 CENT

(AT PRESENT IT COSTS BETWEEN 17CENTS AND 20 CENTS
DEPENDING ON WHETHER IT IS WRAPPED AND SLICED). STANDARD
BREAD RECEIVES A GOVERNMENT SUBSIDY OF ABOUT \$40
MILLION ANNUALLY. THE PRICE OF FANCY BREAD
WHICH IS NOT SUBSIDIZED WILL NOT BE INCREASED

(C) A TEMPORARY SUSPENSION HAS BEEN PLACED ON
ALL NEW LOAN APPLICATIONS MADE TO THE HOUSING
CORPORATION BECAUSE OF THE DEPARTMENT'S OVER
SPENDING OF APPROXIMATELY \$30 MILLION THIS
FINANCIAL YEAR (APRIL 1 THROUGH MARCH 31).

2. THE ECONOMIC MEASURES ANNOUNCED DURING THE LAST WEEK
HAVE REMOVED OVER \$250 MILLION IN SUBSIDIES REDUCING
THE BUDGET DEFICIT BY THE SAM AMOUNT. APPROXIMATE
SAVINGS IN GOVERNMENT SPENDING ARE:

	NZ\$ MILLION
(A) ELECTRICITY	84
(B) POST OFFICE	83
(C) RAILWAYS	57
(D) MILK	28

	252

ACCORDING TO MR. L.R. ADAMS-SCHNEIDER, MINISTER
OF TRADE AND INDUSTRY, THE REVENUE FROM THE INCREASE
IN THE PRICE OF BREAD WILL BE USED PARTLY TO
COMPENSATE BAKERS FOR INCREASED COSTS, THEREFORE
NO FIGURE ON THE AMOUNT SAVED ON THE SUBSIDY IS
AVAILABLE.

3. IN ANNOUNCING THE INCREASE IN THE PRICE OF MILK PRIME
MINISTER MULDOON SAID THE RISE WAS INEVITABLE AND HE DID
NOT BELIEVE IT WOULD CAUSE ANY HARDSHIP TO FAMILIES BECAUSE
EVEN AT THE NEW PRICE (WHICH REPRESENTS ONLY HALF OF THE
PRICE OF SOFT DRINKS) IT WAS STILL PRETTY GOOD VALUE FOR
MONEY. NEW ZEALAND FARMERS AT PRESENT RECEIVE 6.36 CENTS FOR
THE CONTENTS OF A BOTTLE OF MILK WHICH IS SOLD TO THE
CONSUMER FOR 4 CENTS AFTER BEING TREATED, BOTTLED AND DELIVERED
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TO THE HOME. HE ADDED THAT THE WHOLE SUBSIDY HAD NOT BEEN
REMOVED BECAUSE CABINET THOUGHT THIS WOULD INCREASE THE
PRICE TOO MUCH. MR. MULDOON SAID THAT THE ADDITIONAL
REVENUE ACCRUING FROM CURBING THE MILK SUBSIDY WILL ENABLE
THE GOVERNMENT (AS PROMISED IN ITS ELECTION POLICY) TO
INCREASE PAYMENTS FOR MEDICAL AND GERIATRIC BENEFITS TO
PRIVATE HOSPITALS AND ALSO ALLOW EXTRA CONTRIBUTIONS TO
PUBLIC HOSPITALS SO THAT THEY COULD RESTORE SERVICES CUT BECAUSE

OF SHORTAGE OF FINANCE IN RECENT MONTHS. HE SAID THAT THIS WAS ONE WAY ADDITIONAL EXPENDITURE COULD BE MET WITHOUT INCREASING THE BUDGET DEFICIT.

4. PARLIAMENTARY OFFICES WILL CLOSE AT NOON ON DECEMBER 24 UNTIL JANUARY 5, 1976. NO FURTHER IMPORTANT GOVERNMENT ANNOUNCEMENTS OF ANY KIND WILL BE MADE UNTIL THE NEXT CABINET MEETING ON JANUARY 21, 1976. A DEFINITE DATE FOR THE RECONVENING OF PARLIAMENT WHICH RECESSED IN MID OCTOBER HAS NOT YET BEEN SET ALTHOUGH IT IS EXPECTED THAT IT WILL RE-OPEN TOWARDS THE END OF MAY 1976. GIVING THE MEMBERS OF THE HOUSE A BREAK OF SOME SIX MONTHS HAS BEEN STRONGLY CRITICIZED BY THE LABOUR PARTY OPPOSITION.

5. COMMENT: PRIMARILY BECAUSE OF THIS TIMING BY MULDOON, THE STRICT ECONOMIC MEASURES AND THE PARALLEL STEP OF NAMING A FULL-TIME FIVE MAN ECONOMIC "THINK TANK" HAVE DRAWN ONLY A MODEST AMOUNT OF FIRE FROM THE POLITICAL OPPOSITION (THE CHIEF EXCEPTIONS BEING EX-FINANCE MINISTER TIZARD AND FOL PRESIDENT SKINNER). MANY MEMBERS OF BOTH PARTIES ARE ALREADY ON THEIR WAY TO VACATION RETREATS.

THE CHIEF CRITICISM LEVELLED AT THE "ECONOMIC THINK TANK" HAS BEEN AGAINST CTS OVERWHELMING GOVERNMENT BIAS. MR. GALVIN, THE HEAD OF THE ADVISORY COUNCIL (AND ALSO ACTING HEAD OF THE NEW PRIME MINISTER'S DEPARTMENT) IS A CIVIL SERVANT WITH 20 YEARS IN THE TREASURY DEPARTMENT: (IT IS OF INTEREST THAT GALVIN WAS A HARKNESS FELLOW AT HARVARD WHERE HE OBTAINED HIS MASTER'S DEGREE IN PUBLIC ADMINISTRATION). OTHERS INCLUDE THE CHIEF ECONOMIST OF THE GOVERNMENT-OWNED BANK OF NEW ZEALAND; THE DEPUTY DIRECTOR OF THE N.Z. RAILWAY DEPARTMENT'S ECONOMIC PLANNING DIVISION; THE FIRST SECRETARY

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OF NEW ZEALAND'S TOKYO EMBASSY; AND AN INVESTIGATING OFFICER OF THE TREASURY DEPARTMENT.

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